



Bryce Yokomizo
Director

May 20, 2003

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

**RECOMMENDATION FOR ISSUANCE OF WELFARE CASH BENEFITS WITH THE
IMPLEMENTATION OF ELECTRONIC BENEFIT TRANSFER
(ALL DISTRICTS – 3 VOTES)**

IT IS RECOMMENDED THAT YOUR BOARD:

Instruct the Director of the Department of Public Social Services (DPSS) to notify the State of California that Los Angeles County will issue cash benefits for CalWORKs, General Relief (GR), Cash Assistance Program for Immigrants (CAPI) and Refugee Cash Assistance (RCA) participants through the State's Electronic Benefits Transfer (EBT) System.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On January 8, 2002, your Board instructed DPSS to notify the State that Los Angeles County is interested in exercising the County's non-binding option to pursue implementation of EBT for the issuance of cash benefits and to request that the State complete an EBT Cash Access Plan (CAP) for Los Angeles County. Pursuant to that order, the State prepared a CAP for Los Angeles County, which has been evaluated by the Department and interested community advocates. The CAP details every known location where participants can use EBT cards to obtain cash, the maximum amount of cash that they can obtain, and the surcharge, if any, that they must pay as a result of the transaction.

As reflected in the final CAP, which was released on April 1, 2003 and updated on April 30, 2003, EBT will work at more than 5,200 locations in Los Angeles County.

The evaluation resulted in a determination that there is reasonable access for Los Angeles County participants to obtain their cash benefits under EBT and that participants will not incur excessive surcharges while accessing their benefits. This recommendation is based on the fact that DPSS conducted fifty-five community forums between January 6 and February 11, 2003 to gain direct input from participants on the advisability of using EBT to issue cash benefits. Over 9,000 individuals attended the forums, with more than 7,200 completing survey forms. The results were:

- 68 percent wanted to use EBT for cash, 24 percent did not, and 8 percent were undecided or did not respond.
- 63 percent stated that the CAP showed sufficient cash access, 25 percent stated that the CAP showed insufficient access, and 12 percent were undecided or did not respond.

The two primary reasons for not wanting to use EBT for cash were:

1. Fear of surcharges.
2. Preference for direct deposit (direct deposit is currently available to all participants receiving cash and will remain available after EBT implementation).

EBT improves service to participants in two ways:

- First, participants will have a significant increase in locations where they can access their cash benefits. The number of locations will increase from 98 under the current issuance system to over 5,200 with EBT. As indicated above and described in Attachment I, EBT access is available throughout the County.
- Second, there will be a net decrease in cost for participants to obtain their benefits. Currently, 53 percent of participants cash their checks at issuance outlets for a cost of 1.9 percent of the amount of the check plus a 75 cent convenience fee (about \$11.16 for the average grant of \$548). Under EBT, 34 percent of the access points do not impose a surcharge; 64 percent have a surcharge of \$3 or less; and the remaining 2 percent have a surcharge over \$3.

The State and their EBT vendor will continue to strive to increase cash access locations, especially in densely populated areas.

The results of the CAP evaluation, combined with the fiscal impact of using EBT to issue cash, as detailed below, shows that using the State's EBT system to issue cash will provide the best service to participants at the lowest cost.

Implementation of Strategic Plan Goal

Implementation of EBT for cash is consistent with the principles of Countywide Strategic Plan Goal #1: Service Excellence for improving quality of service and organizational effectiveness. In addition, EBT is consistent with DPSS' objectives to increase the efficiency and effectiveness of departmental programs through expanded information technology and communications. EBT is part of the DPSS Business Automation Plan.

FISCAL IMPACT / FINANCING

In order to evaluate the fiscal impact on DPSS of using EBT to issue welfare cash benefits, two alternatives were compared:

- Option 1: Issuance of benefits through the State's EBT system. Costs for this alternative include the cost of using EBT for cash issuance and DPSS staff to monitor and support the system.
- Option 2: Continuing with DPSS' current approach of issuing cash benefits through 98 issuance outlets located throughout the county. The current system, which is linked to Food Stamp issuances, under State regulations, would be re-procured for a cash-only issuance system. Costs for this alternative include: the costs of operating the computer system to support issuance, outlet costs, LEADER costs and DPSS staff costs to reprocure and operate the contracts. Also included are the costs of operating the current FAIR system until a replacement system can be procured.

By selecting the EBT system over procuring a new FAIR-like system, the County will save \$41.2 million over the seven fiscal years, resulting in NCC savings of \$11.5 million. See Attachment II for the supporting detail.

The estimated cost for EBT cash is \$34,440,237 over the seven year period of the State's contract with Citicorp with the estimated NCC of \$7,881,242. To the extent that these costs are claimed to CalWORKs there is no additional NCC after the required MOE is met. Costs associated with CAPI and RCA programs are fully subvented by State and federal revenues respectively. There is a \$301,903 NCC for FY 2003-04 that results from costs associated with GR program, which is included in the Department's FY 2003-04 Proposed Budget. Funding for future years will be included in the annual budget requests.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The development and implementation of a statewide EBT system for the delivery of Food Stamp benefits is mandated by Sections 10065 through 10077 of the Welfare and Institutions (W&I) Code. The W&I Code further states that any cash benefits provided to recipients under the department's authority may be distributed through the EBT system as long as recipients have reasonable access to their benefits.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

EBT will improve participant service and increase efficiency of benefit delivery. Although some zip codes did not have reasonable access within the boundaries of that zip code, each community had sufficient access to ensure that participants will be able to obtain their benefits on their stagger day. However, there is a need in some areas for access to improve. As a result, the State, the County and the State's EBT vendor, Citicorp Electronic Financial Services (CEFS) are redoubling their efforts to increase access in these problematic areas. Based on the amount of cash access now available, using both the statistical data provided in the Cash Access Plan and the experience in other counties that are using EBT to issue cash, there is sufficient cash access to support using EBT to issue cash in Los Angeles County.

Respectfully submitted,

Bryce Yokomizo
Director

BY:en

Attachments (2)

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors
Auditor-Controller
Chief Information Officer

ELECTRONIC BENEFIT TRANSFER (EBT) PARTICIPANT BENEFIT AND CASH ACCESS ANALYSIS FOR LOS ANGELES COUNTY'S RECOMMENDATION

Introduction

In evaluating the State's Cash Access Plan (CAP), DPSS took into consideration benefits and risks to the participants, as well as cash access issues that would either positively or negatively impact the service delivery to our participants. The recommendation to approve EBT for cash is based on the results from the following three analyses:

- Cost/benefit to participants;
- Reasonable access, as defined by the State and the DPSS/EBT Working Group criteria; and
- Cost to the County (Attachment II).

Participant Benefits

Benefits to the participants are as follows:

- **RELIABILITY:** Electronically distributed benefits are delivered accurately and on time.
- **SECURITY:** A Personal Identification Number (PIN) ensures that only authorized individuals can access EBT benefits. If the EBT card is lost or stolen, it cannot be used without the participant's PIN. Participants have access to their benefits and can activate/de-activate a card or change a PIN 24 hours a day, 7 days a week, 365 days a year.
- **CONVENIENCE:** Cash can be accessed in a variety of ways and at more locations. Cash can be withdrawn at Automated Teller Machines (ATMs). At Point of Sale (POS) locations, cardholders may purchase goods, services, or money orders, as well as receive cash back.
- **REDUCED COST:** EBT will provide lower cost alternatives, where available, for accessing cash benefits than the current FAIR system. Participants can make four cash-only withdrawal transactions per month without incurring transaction fees.

Participant Risks

A participant's safety is a concern at some ATMs that are located outside buildings. In response to this concern, DPSS and the State will focus on participant safety in printed and training communications.

State Evaluation Criteria

The State's criterion is designed to ensure that "reasonable access" exists for all participants on the day benefits are available. The State definition of reasonable access is defined as the capacity (or the amount of cash) that should be available in each zip code to meet or exceed cash access demand by the cash benefit recipient population.

The State found that there was sufficient capacity in 263 (94 percent) of the 280 zip codes in Los Angeles County, with six of the 17 zip codes having less than 40 participants.

CAP Work Group Evaluation Criteria

Evaluation Process

This evaluation process was a collaboration between DPSS and interested community advocates (referred to as the CAP Work Group).

The CAP Work Group applied the following three tests to the CAP:

1. A full cash withdrawal can be completed for 100 percent of the daily capacity needed with one or two card swipes. This level of access will help ensure safety at ATMs by minimizing the amount of time needed to complete a full cash withdrawal.
2. A full cash withdrawal can be completed for 100 percent of the daily capacity needed with a surcharge of 0.75 percent or less. This level of access will help ensure that participants are not subjected to excessive surcharges.
3. Thirty percent of the daily capacity needed can be obtained without a surcharge. This test will help ensure that our participants have a broad variety of surcharge free options. This test was applied to zip codes with one hundred or more cases.

These tests were applied to the Final CAP in conjunction with the following assumptions and conventions.

- A grant of \$548 was used, as this represents the 60th percentile of grants in Los Angeles County. These tests were applied to zip codes with caseloads of 100 or more.

- Cash capacity from POS devices was included for those merchants where a participant could obtain at least \$200 in cash and one or more money orders as qualifying for a full cash withdrawal. The amount of capacity met by this method was reviewed to ensure that participants have a full spectrum of alternatives because, while it is a good resource for some participants, it is not for others.
- In some cases, adjacent zip codes were considered together when the combined access would be sufficient to meet the aggregated daily need. When this occurred, the geographic distribution of access points was evaluated to ensure reasonable proximity to participants' residences.

Based on the tests noted above, 242 (86 percent) of the 280 zip codes in Los Angeles County met all three tests.

Conclusion

Using the State's criteria, there is sufficient cash access for 94 percent of the County's zip codes. Therefore, the Department concludes that cash benefits should be issued through EBT. By doing this, participants' points of access are increased from 98 to over 5,200 locations. In the few underserved areas remaining, the State, the Department and the State's EBT vendor (CEFS) are committed to increasing cash access.

**ELECTRONIC BENEFIT TRANSFER (EBT)
COST OF ALTERNATIVES FOR ISSUING
CASH BENEFITS IN LOS ANGELES COUNTY**

Introduction

The costs of two alternative methods of issuing cash benefits after EBT is implemented were compared:

1. Issuance of benefits through the State's EBT system. Costs for this alternative include the cost of using EBT for cash issuance and the cost of DPSS staff to monitor and support the system.
2. Continuing with DPSS' current approach of issuing cash benefits through 98 issuance outlets located throughout the County (FAIR-like system). The current system, LA FAIR (referred to as FAIR), which is linked to Food Stamp issuances, under State regulations, would require the County to reprocure for a cash-only issuance system. Costs for this alternative include: the costs of operating the computer system to support issuance, outlet costs, LEADER costs and DPSS staff costs to reprocure and operate the contracts. Also included are the costs of operating the current FAIR system until a replacement system can be procured.

These two options can be compared to purchasing a service from an outside entity (the State) and building a system that will be locally operated.

The following issuance methods were evaluated but not considered for the reasons noted:

1. Mailing Warrants. This option was used by Los Angeles County before the use of FAIR to issue benefits. The County made that change because: mail issuance resulted in high warrant replacement rates; issuance via the FAIR system had a lower cost; and letter carriers were subject to robberies on the first of each month. Those reasons have not changed and make this option unacceptable.
2. A County Run EBT System. The County could elect to run its own EBT system instead of using the State's system. However, such an option would require a significant County workforce to procure, design, implement and operate such a system, which renders this more expensive than using the State's EBT system.
3. Continental Currency Proposal. As reported to the Board of Supervisors on April 3, 2003, the State will not support or approve the CCS proposal. The proposal limits cash access to participating outlets within Los Angeles County. This option requires significant changes to the State's EBT

software which are outside of the scope of the state's contract with CEFS. The state has outlined several reasons that it cannot make the changes that would be required.

Assumptions

In completing this cost analysis, several assumptions were made:

EBT Cash System Assumptions:

1. The State assumes all development and implementation costs, including LEADER change costs.
2. Participant behavior in Alameda County, which has used EBT to issue cash benefits since August 2002, can be used to predict participant behavior in Los Angeles County.
3. EBT card replacement rates will be the same as experienced in the current FAIR system.
4. Costs for County staff to monitor and support the EBT interface are included.

FAIR-like System Cost Assumptions:

1. The current FAIR system will operate while a new system is procured.
2. Costs for County staff to procure, design, develop, implement and operate the new system are included.

Assumptions that Apply to Both Alternatives:

1. Costs are divided between cash programs based on caseload ratios (benefiting program).
2. Food Stamp costs are not included.
3. Costs run from the start of the Los Angeles EBT pilot (August 2003) to the end of the State EBT Contract (July 2010).
4. State funding ratios remain unchanged during that period.
5. All caseload numbers are based on DPSS Financial Management Division projections.
6. FAIR operation costs until Countywide EBT rollout are the same for both options.

Cost Comparison

The costs by Fiscal Year are:

Fiscal Year	EBT	FAIR-like System
03-04 (one month)	Total \$1,341,128	Total \$0
	NCC \$301,904	NCC \$0
04-05	Total \$5,155,303	Total \$11,374,219
	NCC \$1,166,868	NCC \$2,908,924
05-06	Total \$5,367,060	Total* \$28,489,512
	NCC \$1,222,556	NCC* \$7,286,112
06-07	Total \$5,513,668	Total \$9,678,069
	NCC \$1,262,101	NCC \$2,475,139
07-08	Total \$5,514,609	Total \$8,464,138
	NCC \$1,266,300	NCC \$2,164,679
08-09	Total \$5,523,326	Total \$8,500,576
	NCC \$1,271,144	NCC \$2,173,998
09-10	Total \$5,555,766	Total \$8,538,774
	NCC \$1,281,883	NCC \$2,183,767
10-11 (July 2010 only)	Total \$469,377	Total \$644,651
	NCC \$108,486	NCC \$164,868
Total	Total \$34,440,237	Total \$75,689,939
	NCC \$7,881,242	NCC \$19,357,487
Net Savings with EBT System	Total \$41,249,702	
	NCC \$11,476,245	

* FAIR-like system development costs incurred this year.

Conclusion

Issuance of benefits through the State's EBT system will be significantly less expensive than through a FAIR-like system, both in terms of total cost and net county cost (NCC).